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SUBJECT: ROMANIA'S REDENOMINATED CURRENCY PREMIERS JULY
FIRST

SUMMARY

1. Romania officially and hopefully marks the end of its period of high inflation by introducing its redenominated currency, the "heavy" Leu, on July 1, 2005. Redenomination will slash four zeros off the existing currency, making one leu worth approximately 0.30 cents (U.S.). Although the upcoming move has provoked little anxiety among the public, press and banking communities, Embassy experience to date raises some concern about the switch. END SUMMARY

Romania's Heavier Lion Charges Ahead

2. The GOR decided in early 2003 to redenominate and reconfigure the Leu (which means "lion" in Romanian) to make it approximate the value and appearance of the Euro (in anticipation of Romania's eventual inclusion in the Eurozone). In addition, the new Leu will be listed on currency markets as the "RON" (which means "Romanian New") to distinguish it from the "ROL" (which means "Romanian Leu"). And for the first time in many years, fractional coinage, the "Ban" (100 Bani equal one RON) will also circulate for making change.

3. In practical terms, the old currency's face value will be divided by 10,000. For example, a one million ROL note, currently the largest bill (worth approximately \$30), will be converted into 100 RON, which will also be smaller in format, more like the size of the Euro notes. One Euro equals about 3.6 RON and one dollar equals about 3.0 RON at the current rate of exchange.

4. Officially, the new currency debuts July 1, but the GOR plans an extended phase-in of the RON and will circulate it in parallel with the ROL for 18 months. This period will permit customers to acquaint themselves with the new notes, allowing businesses such as vending machine manufacturers to make adjustments for the new coins and notes. The GOR has advised all commercial banks to cease public operations on Thursday and Friday, June 30 and July 1, although a few banks will remain open for limited transactions. Credit cards will be unusable Thursday, June 30, and most ATMs will not function until Saturday, July 2. Ostensibly, the RON will lower transaction and production costs for both commercial banks and Romania's Central Bank and will also allow banks to use cheaper standardized software.

5. The Romanian Central Bank delivered the RON to banks by June 15; retailers are scheduled to receive the new currency no later than July 1. Bankers are recommending that clients make scheduled end-of-month payments before June 29, to avoid the potentially chaotic period between June 30 and July 4. Banks will likely not begin dispersing the RON until Monday, July 4, when bank branches reopen for business.

Public Education Campaign

6. The Central Bank created a public education campaign including seminars, advertisements and distribution of materials that describe the changes. Additionally, since March 2005, all businesses have been required to post all prices in both old and new Leu. The GOR has distributed more than 1,720,000 pamphlets edited in Romanian, English and Hungarian describing the design and safety features of the new Leu, as well as 600,000 posters and even 5,000 pamphlets in the Braille alphabet. The Central Bank has also organized more than 100 technical meetings and seminars, with commercial banks, private companies and local authorities to help spread the word. The GOR gave special attention to those working in the financial world by distributing 10,000 technical booklets geared towards commercial bank employees.

Comment

7. The Central Bank has created a comprehensive plan for the RON roll-out, based partially on its previous experience

replacing paper currency with plastic notes. Both the RON and ROL display the same color and design for equivalent values, making it easier for consumers to adapt to the change. However, it remains to be seen whether the redenomination will cause disruption in the marketplace, due to the extensive software alterations required by both local and international banking systems. In May, US Embassy Bucharest discovered that one international ATM machine clearinghouse had incorrectly pre-set its systems to account for the heavy Leu, instead of the current Leu, hindering withdrawals from certain U.S. banks for almost a week. Another concern lies with the reaction of the elderly and rural population, whom many observers credit as being distrustful of any new change of this magnitude - particularly after the economic battering many experienced in the past 15 years.

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